

This record is a partial extract of the original cable. The full text of the original cable is not available.

231429Z Sep 03

UNCLAS SECTION 01 OF 02 ANKARA 006001

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD/OMA, AND EUR/SCE
NSC FOR MCKIBBEN
TREASURY FOR OASIA - MMILLS AND JLEICHTER

E.O. 12958: N/A

TAGS: [EFIN](#) [TU](#)

SUBJECT: U.S. CREDIT SIGNING CAPS STRONG MARKET RALLY

REF: ANKARA 5801

1. (SBU) Yesterday's signing of the U.S. Financial Agreement in Dubai capped a strong market rally over the previous two weeks, which saw the Turkish equity, foreign exchange and debt markets reach their high point of the year. Though the U.S. FA signing was important, forward-leaning comments from IMF officials, continued good news on inflation expectations, plus a Central Bank rate cut all helped buoy markets in recent days. According to a Central Bank calculation the Real Effective Exchange Rate is now back up to pre-2001 crisis levels. End Summary.

SUSTAINED RALLY BRINGS RECORD LEVELS:

2. (SBU) The markets' strong rally the week before last (reftel) continued last week and on Monday and Tuesday of this week. By the close on September 23, the IMKB 100 stock index was in record territory for the year at 14,031.06. Though the stock market index declined on profit-taking in morning trading Tuesday, by the close it had broken the 14,000 level and ended higher than Monday's close. At this level, the IMKB 100 is approaching the post-election November 2002 peak of 14,058. The lira also continued its summer rally, blowing past the 1,370,000 level at which the Central Bank had intervened on September 10, and closing Monday at 1,358,000 and Tuesday at 1,359,000. According to a Central Bank calculation, even at last week's rates, the Real Effective Exchange Rate has now returned to pre-2001 crisis levels, slightly surpassing the more recent peak during the November, 2002 post-election honeymoon.

3. (SBU) The debt market was similarly buoyed, with the government bond due August 18, 2004 trading down to 34.36 percent and the September 22, 2004 at 34.30. This represents a remarkable descent for these benchmark interest rates which were trading over 40 percent only a month ago.

GOOD NEWS ON IMF AND USG BUT ALSO ON MACRO SITUATION:

4. (SBU) Monday's rally received a strong push from a series of bullish statements by IMF officials and hints that the USG loan was likely to be signed. Most notable was the IMF's Director for Europe Michael Deppler saying Friday that Turkey was "better than on-track" though ResRep Odd Per Brekk also made cautiously optimistic statements on Friday. Despite some wary comments by Economy Minister Babacan on Friday about the USG credit, the markets seem to have priced in a U.S. Financial Agreement signing.

5. (SBU) Also on Monday, the Central Bank's twice-monthly inflation expectations survey showed expectations of year-end inflation continuing their downtrend. In the report released Monday, the survey respondents forecast year-end inflation at 20.7 percent, a slight decrease from two weeks earlier when the expectation was for a 21 percent level. Separately, the State Statistical Institute reported on Industrial Capacity Utilization for August, which came out at 79.1 percent, compared to 76.4 percent in August, 2002. Although one local analyst suggests that on a seasonally-adjusted basis this represents a decline from July, the markets seemed to ignore any doubts about the strength of the economic recovery.

6. (SBU) Even before the Monday rally, the markets had a good

week last week, building on the momentum of the week of September 8-12. The market continued to move forward throughout the week as no bad news broke the momentum. On Thursday, helping the bullish mood, the Central Bank cut overnight lending rates by 3 percentage points. Though in many ways a lagging indicator--markets starting talking about a possible rate cut earlier in the month as government securities traded lower--the rate cut helped confirm the market's bullish sentiment. In fact, Central Bank comments to Emborffs suggest the Bank may have waited as long as it could to cut rates in order to maintain pressure on the Government to demonstrate fiscal discipline. The relatively encouraging preliminary August fiscal numbers, combined with decreasing inflation expectations and sharply lower interest rates in the market appear to have induced the Bank to finally cut rates.

ANOTHER SUCCESSFUL TREASURY AUCTION TUESDAY:

17. (SBU) With fortuitous timing, Treasury issued two foreign exchange-denominated auctions on Tuesday. The auctions produced yield of 4.52 percent and 5.07 percent, respectively for the USD and Euro issues, beating market expectations.

EDELMAN